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# NAVAL POSTGRADUATE SCHOOL

MONTEREY, CALIFORNIA

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## MBA PROFESSIONAL REPORT

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**Lessons for the DoD  
from the Nonprofit Sector**

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**By: Michael A. Dube, and  
Brad W. Vetting  
December 2004**

**Advisors: CDR Philip J. Candreva,  
Dr. Erik Jansen**

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**LESSONS FOR THE DOD FROM THE NONPROFIT SECTOR**

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Submitted in partial fulfillment of the requirements for the degree of

**MASTER OF BUSINESS ADMINISTRATION**

from the

**NAVAL POSTGRADUATE SCHOOL  
December 2004**

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# **LESSONS FOR THE DOD FROM THE NONPROFIT SECTOR**

## **ABSTRACT**

The objective of this MBA project is to examine the nonprofit sector as a source of lessons learned for the federal government in general and the Department of Defense in particular. This paper provides a characterization of the nonprofit and public sectors to identify the attributes common to both sectors. Utilizing the similarities between the sectors, we make the case for the nonprofit sector as an untapped source of lessons learned for the public sector and DoD. We then demonstrate our case for nonprofit organizations as a source of lessons learned using the American Red Cross as an example as it shares many of the same challenges as the DoD.



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## **I. INTRODUCTION**

### **A. THE PROBLEM**

Over the past decade, the federal government and the Department of Defense (DoD) have focused extensively on the for-profit sector for sources of best practices. Reform initiatives, such as the Government Performance Results Act, the National Performance Review and the Federal Acquisition Streamlining Act, along with recent initiatives such as the President George W. Bush's Management Agenda and the Program Assessment Rating Tool (PART), have sought to capture the best practices of organizations outside of the federal government, including many Fortune 500 companies. These initiatives arguably have resulted in a more efficient and responsive government. The third sector, nonprofit organizations, has largely been ignored in the government reform process as a source of best practices.

In a recent article in *Public Administration Review*, Arthur Brooks (2002) posed the question "Can Nonprofit Management help answer public management's "big questions"? It would seem, looking at the government's actions, that the answer is no; the answers to government's management problems lie in the for-profit sector. Dr. Brooks made the point that nonprofit management is a natural complement to public management. This natural complement between the two sectors appears to provide an under-explored source for lessons learned as the federal government and the Department of Defense continue to transform themselves with the best practices of non-governmental organizations.

### **B. RESEARCH OBJECTIVES**

This paper provides a characterization of the nonprofit and public sectors to identify the natural overlap to which Arthur Brooks eluded. Using the similarities between the sectors, we make the case for the nonprofit sector as an untapped source of lessons learned for the public sector and DoD. We then demonstrate our case for nonprofit organizations as a source of lessons learned using the American Red Cross as



an example as it shares many of the same challenges as the federal government. This project answers the following research questions:

Primary Question:

- What can the DoD learn from the nonprofit sector, using the American Red Cross as an example?

Secondary Question:

- What attributes are representative of nonprofit and public sector organizations?
- What attributes are common to both the nonprofit and public sectors?
- Which of these common attributes are displayed in the American Red Cross?

## **C. METHODOLOGY**

This project is based on the question posed by Arthur Brooks: “Can Nonprofit Management help answer public management’s big questions?” (Brooks, 2002) This thesis addresses that question by using public and nonprofit management literature including text books and journal articles to characterize the nonprofit and public sectors. An Organizational Systems Framework (OSF) is then used as a framework for defining these characteristics. Comparing the frameworks of each sector, we identified common attributes to demonstrate the nonprofit sector as a sector similar to the public sector and a source of lessons learned and best practices. We then reviewed organizational literature from the American Red Cross including its history, charter, annual reports, financial statements, and strategy documents. We also contacted the Chief Executive Officer of the American Red Cross and conducted an interview with the Vice President of Corporate Strategy to lend insight into the organization. Finally, we present the American Red Cross as an example of a nonprofit organization sharing many of the same attributes and challenges of public sector organizations and worthy of further study as a source of best practices for future government reform initiatives.

#### **D. WHAT IS THE NONPROFIT SECTOR?**

In order to characterize a nonprofit organization, we first answer the question of “what is a nonprofit organization?” This definition is then used to characterize nonprofit organizations using an Organizational Systems Framework.

Although the concept of an organization existing for reasons other than earning a profit is not new, over 90 percent of all nonprofit organizations were created after World War II (Herman, 1991). As an emerging sector experiencing rapid growth and impacting all facets of society, the nonprofit sector has been the focus of substantial legislative, regulatory, and judicial oversight and structuring, due in part to its attractiveness as a tax-exempt entity. This expansion of the nonprofit sector makes it difficult to concisely define.

Nonprofit organizations vary in size from a few employees in a small, local charitable organization to multi-billion dollar foundations, universities, and international organizations with thousands of employees and volunteers. Their missions and revenue sources are as varied as the types and scope of their missions. They can be categorized as performing four core functions: promoting of political and civil engagement, delivering critical services, providing a vehicle for social entrepreneurship, or acting as an outlet for the expression of faith and values (Frumkin, 2002). Nonprofit organizations exist to do good where the mission is seen as a moral absolute rather than economic decision (Drucker, 1985). They primarily involve three major forms of activity: service, advocacy, and member benefit (Herman, 1991).

Service activities exist to assist individuals in need with immediate problems such as disaster relief organizations for victims of fire, floods, and other natural or man-made disasters. One such organization, the American Red Cross, responds immediately to more than 67,000 disasters, including house or apartment fires (the majority of disaster responses), hurricanes, floods, earthquakes, tornadoes, hazardous materials spills, transportation accidents, explosions, and other disasters (Red Cross, 2004).

Advocacy activities exist to develop and promote policies to achieve a just and humane society. American Humane, for example, is this nation’s only organization

dedicated to both child and animal protection. It provides “leadership in the development of programs, policies, and services on behalf of children and animals who are abused or neglected ... including administering and advancing programs for the prevention of abuse and neglect, as well as raising public awareness of this critical issue” (American Humane, 2004).

Member benefit activities exist to provide an outlet for individuals with common interests to gather and to exchange information and resources. One example is the National Contract Management Association, a membership-based, professional society formed to foster professional growth and educational advancement of its members in the practice of contract management (NCMA, 2004).

The definition of a nonprofit organization can be as varied as the mission or purpose for which it exists to promote or serve. Defining the attributes of a nonprofit organization within a systems structure such as the Organizational Systems Framework enables the characterization of the abstract form of the nonprofit sector. This framework also helps to identify potential similarities between the nonprofit and public sectors.

## **E. WHAT IS THE PUBLIC SECTOR?**

As society grows, so does its government. As society grows more complex, so do the problems facing its government. These problems have a tendency to become entwined, such as drugs and crime, and poverty and gender, in ways that require “conflict management between diverse groups in and out of government as well as social entrepreneurship (that is, building new types of relationships)” (Perry, 1996, p 539). As a result of long-term federal deficits and a desire to balance the federal budget, government has been left with declining resources relative to public needs.

Public Administration has grown in complexity as well. It is virtually impossible to identify any public program that a single government agency can manage on its own without relying on some partnership with other public agencies, private, or nonprofit organizations (Rainey, 1996). Public organizations no longer only manage the functions within their own agencies; they also must build critical linkages with external

organizations. As a result, government responsibility grows as does societal cynicism of the government. Increasingly, citizens are demanding that government improve its performance and stewardship of taxpayer's dollars.

The Public sector is generally void of competition from the free market and is without a market for its output; therefore, it must rely on governmental appropriations for financial resources. This dependence generally leaves public organizations little incentive to achieve cost reduction, operating efficiency, and effective performance. From weaker reflection of consumer preferences, there is generally lower efficiency in allocating resources. As with the nonprofit market, public organizations rarely charge for their services or derive financial gain from their customers. This lack of a clear market economy leaves little to no indicators or information (prices, profit, market share) regarding performance that can be used in managerial decisions.

Organizations within the public sector exist to serve a variety of missions and purposes. Defining the attributes of a public sector organization within a systems structure such as the Organizational Systems Framework enables the attributes of the sector to emerge. This framework also helps to identify potential similarities with the nonprofit sector.

## **F. ORGANIZATION OF THE STUDY**

This project is organized into five chapters. Chapter II provides a framework of nonprofit and public sector organizations utilizing an Organizational Systems Framework to characterize the attributes of each sector. It then demonstrates the case for studying the nonprofit sector as a source of lessons learned for the public sector and the Department of Defense. It also addresses what the nonprofit sector has to offer the DoD that for-profit companies do not. Chapter III presents the American Red Cross as an example of a nonprofit organization that displays many of the same attributes of the public sector and DoD. Chapter IV identifies opportunities for lessons learned and best practices for application to the federal government and the DoD.

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## **II. THE NONPROFIT AND PUBLIC SECTOR FRAMEWORK**

This chapter summarizes the existing literature to describe nonprofit and public sector organizations using the Organizational Systems Framework (OSF) approach. The OSF describes the organization as an open system that accepts inputs, actively processes those inputs, and produces a desired output. Applying the OSF approach to nonprofit and public sectors reveals attributes that define the processes and characteristics of the organizations within the sectors.

### **A. ORGANIZATIONAL SYSTEMS FRAMEWORK**

An Organizational Systems Framework describes an organization within a structured system. Systems' theory is "based on the assumption that there are universal principles of organization, which hold for all systems, be they physical, chemical, biological, mental, or social" (Heylighen, 1998, p 1). The systems view seeks to ignore the concrete material of which organizations and systems are constructed so that their abstract organization may be characterized.

A system may be defined simply as a set of interrelated elements; it is made up of two or more parts, either tangible or intangible, that are physically or logically interrelated to each other. The essential component of a system is that these interrelated parts can be perceived as a whole whose sum is greater than its parts (Verstraete, 1998).

One categorization of systems theory is that of the open systems model. This model seeks to describe the system by the manner in which it interacts with entities in its environment. This interaction has two components: input (that which enters the system from the outside) and output (that which leaves the system for the environment). As the outputs are different from the inputs, the system is an active processor of the inputs (Heylighen, 1998). The Organizational Systems Framework is a structured, open systems approach to defining the attributes and processes of an organization.

The OSF describes the organization as a system based on the assumption that it is open to its external environment. It depends on converting environmental inputs into the outputs of the organization. This active conversion is known as throughput. The organization judges its performance through feedback provided by the outputs.

The Organizational System's Framework (Roberts, 2004) has four basic elements: organizational direction, design factors, culture, and results. Figure 1 provides a graphical representation of the OSF.

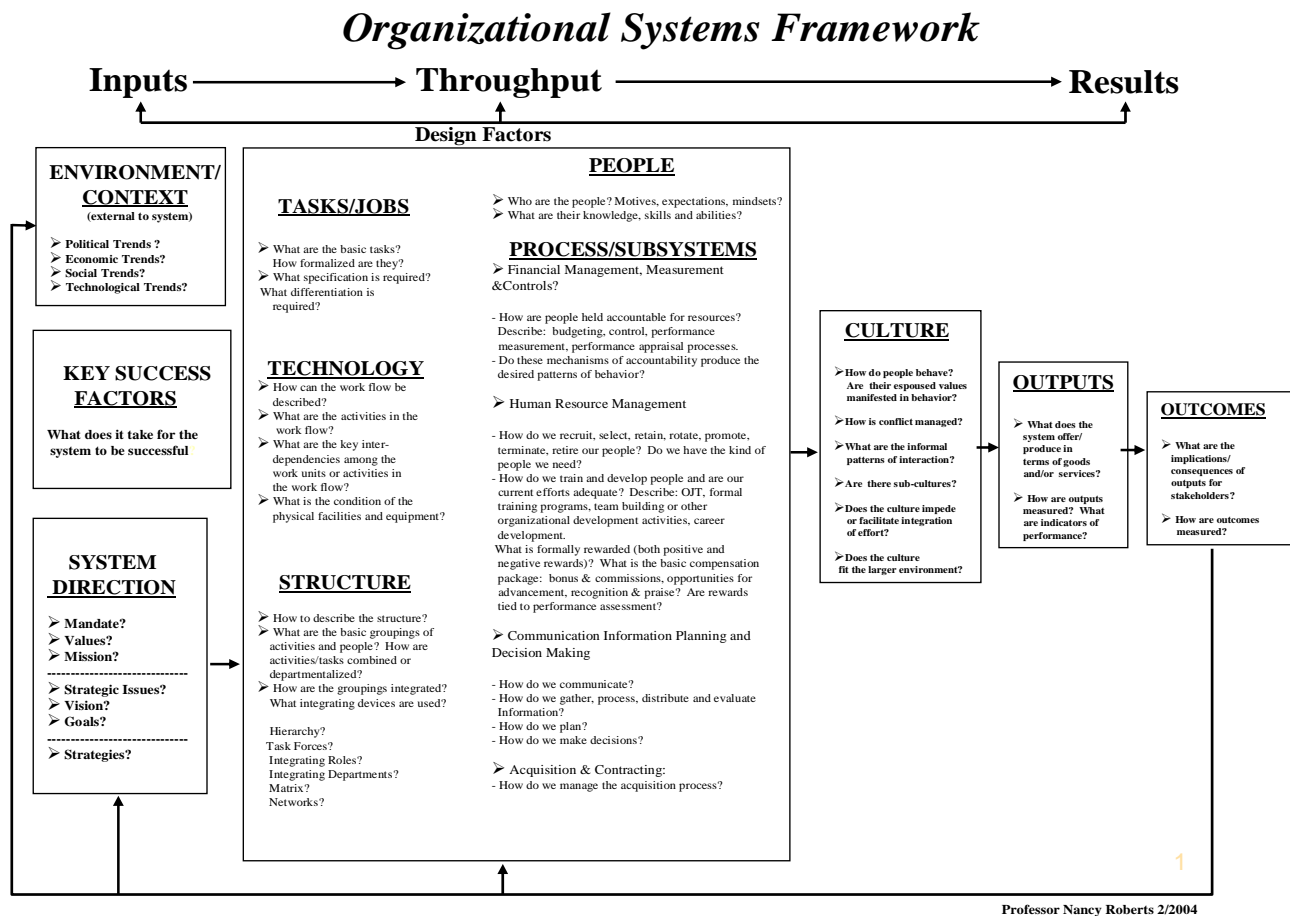


Figure 1. Organizational Systems Framework (from Roberts, 2004)

## B. OSF APPLIED TO NONPROFIT AND PUBLIC SECTORS

The Organizational Systems Framework provides a structured approach to describing the attributes that define the nonprofit and public sectors. Table 1 presents a summary of the attributes displayed within each sector.

OSF basic elements	Sector Attributes	
	Nonprofit Sector	Public Sector
<b>Organizational Direction</b>		
Mission	Promote political & civil engagement, deliver critical services, vehicle for social entrepreneurship, outlet for expression of faith & values	Interest articulation, interest aggregation, rule-making, rule application, rule adjudication, communication
Values/Beliefs	Humanity, neutrality, impartiality, & independence	Impartiality, justice, liberty, equity & human dignity
Strategy	Shaped by political, economic & social climate	Shaped by mandates, environments, & stakeholder interests
<b>Design Factors</b>		
People	Motivated by sense of mission and desire to make a difference	Normative, coercive, utilitarian
Tasks	Wide variety, specialized and unskilled	Wide variety, relatively structured; specialized
Structure	Decentralized, flay & organized around task	Centralized, hierarchical
Process/Subsystem	Strict accountability to donors and volunteers	Political in nature, strict accountability to stakeholders
<b>Culture</b>	High sense of mission and service to others	Normative environment, public service
<b>Results</b>	Not readily apparent & measurable	Not readily apparent & measurable

Table 1. Sector attributes of OSF elements

## 1. Organizational Direction

The organization's direction sets the course for its future and may be implicit or explicit. There are several ways that this organizational direction can be relayed to its constituents:

- Mission – defines an organization's "reason for being"
- Values and beliefs – the mode of conduct the organization espouses
- Strategy – describes how an organization gets from where it is to where it wants to go
- Environment – areas in which an organization performs its functions

What do we know about organizational direction in the nonprofit and public sectors?



*a. The Nonprofit Sector*

Several elements of the organizational direction are prominently displayed within the nonprofit sector, including mission, values/beliefs, strategy, and environment.

(1) Mission. The mission component defines the “organization’s ‘reason for being.’ It clarifies what the organization does, for whom, and how” (Roberts, 2004). Nonprofit organizations lack the clarity of the bottom line; they start “with the mission rather than profit as a motive, and this starting point leads to a clearer understanding of what the organization is all about” (Drucker, 1989, p 89). Nonprofit organizations exist to support four core functions: 1) to deliver critical services; 2) to provide a vehicle for social entrepreneurship; 3) to promote political and civil engagement; and 4) to act as an outlet for the expression of faith and values (Frumkin, 2002).

Organizations such as the National Civic League (NCL) support Frumkin’s core function of promoting political and civil engagement. Founded by Theodore Roosevelt, Louis Brandeis, Marshall Field, and others in 1894 to promote municipal reform and community democracy, the NCL is a nonprofit, nonpartisan organization dedicated to building community. It helps business, government, community groups, and individuals work together to solve critical problems, and serves as a resource for community building practices (NCL, 2004).

The function of delivering critical services is displayed in organizations such as the American Red Cross and its disaster relief services. Delivering relief services provides their purpose and is displayed in the organization and the hundreds of volunteers who answer the call in times of need.

The function of promoting social entrepreneurship is also displayed in organizations such as Planet Water, a nonprofit organization started by Jim and Beth Rankin in 1969 to promote the protection of the oceans (Herman, 1994). Organizations emerging under the social entrepreneurship function of the nonprofit sector evoke a personal reason for being that guides its actions.

Fraternal membership organizations, such as the Catholic Knights (CK), exist to serve Frumkin's core function of acting as an outlet for the expression of faith and values. The Catholic Knights seek to be the most caring and trustworthy society for Catholics, and for more than 100 years has offered men, women, and children a wide range of valuable membership benefits, social and charitable activities, and strong financial products and services (CK, 2004).

(2) Values/beliefs. The values/beliefs component addresses "the mode of conduct the organization espouses" (Roberts, 2004). It is demonstrated within the organization and its policies. Many nonprofit organizations value the four core principles of humanitarian aid: 1) humanity (preventing and relieving suffering); 2) neutrality (not taking sides); 3) impartiality (providing aid indiscriminately; based on need alone); and 4) independence (being free of influence of a foreign government and not pursuing a political or religious agenda) (Salamon, 2002). It would be an overstatement to say that all nonprofits value all four core principles. Even though nonprofits may have a political and/or religious bias, their function of helping humanity is paramount.

When asked what skills had helped them succeed in their nonprofit jobs, 89 percent of the graduates from the nation's leading public policy and administration graduate schools interviewed by the Center for Public Service in 1998 listed maintaining ethical standards first (Light, 2002). Ethics are gaining in importance within the nonprofit sector as the separation between public and nonprofit sector activities diminish. As unrestricted donations and government grants decrease and fee-for-service activities increase as a percentage of total revenues, the nonprofit sector faces an increasing ethical and accountability dilemma. Cause-related marketing and joint venture arrangements between nonprofits and for-profits raise conflict of interest issues. The closer a reputable nonprofit organization is willing to associate itself with a product or company, the more valuable that association is to the company which could result in larger donations to the nonprofit (Salamon, 2002). Such arrangements can compromise the objectivity and neutrality of a nonprofit organization, leading to an increased importance of maintaining the highest ethical standards within the sector.

(3) Strategy. Strategic planning is a structured effort to produce fundamental decisions and actions that shape and guide an organization – what it is, what it does, and why it does it (Bryson, 1995). “Strategic thought and action are increasingly important to the continued viability and effectiveness of nonprofit organizations of all sorts” (Herman, 1994, p 154). Strategic planning enables the nonprofit organization to clarify its future direction, to make decisions today that reflect future direction, to improve performance, and to deal effectively with changing circumstances and environmental influences.

The nonprofit sector also is shaped by the economic, political, and social climate in which it exists. It is first influenced by its direct operating environment, which can be defined as organizations, groups, and individuals that have frequent interactions with the nonprofit organization (Herman & Heimovics, 1991). These external influences are part of the strategic planning process. This process involves the identification and clarification of the mandates placed on the organization, the clarification of its mission and values, and the assessment of their external and internal environments. The results of these assessments and clarifications are used to develop the strategy to attain the desired organization of the future.

(4) Environment. An organization’s environment refers to the areas in which they perform their functions. These areas span a broad spectrum of stakeholders including customers, clients, politicians, and professionals. The tensions between the stakeholders shape the environment in which an organization must operate.

The environment in the nonprofit sector plays a significant role in shaping the organizational direction. The environment refers to the current political, economic, social, and technological trends within the society for which the nonprofit organization serves. As the economy takes a downturn, the government takes in fewer revenues in the form of taxes. A downturn in the economy usually results in fewer donations until a major event or media focus brings attention to the plight of those in need. Perhaps the most influential lever external to the nonprofit sector is the impact of political and social trends. Outsourcing has become a byproduct in the transformation of government, which has enticed the nonprofits to enter these new markets. In San Diego

County, California for example, nonprofit Catholic Charities are competing for a share of the welfare-to-work market against two private firms, Lockheed Martin IMS and Maximus and the remnants of the San Diego County Human services department (Light, 2000).

***b. The Public Sector***

The public sector is administrative and involved in policy-making and exists to serve a community, state, or country. It is generally void of competition and must rely on governmental appropriations for financial resources. Several elements of the organizational direction component are prominent within the public sector, including mission, values/beliefs, and strategy.

(1) Mission. Having a focused mission is essential for an organization to perform its most basic functions. A focused mission clarifies what the organization does, for whom, and how. A clear mission also helps stakeholders share a purpose. When more people come to share a purpose, the mission becomes more real in the sense of a mental reality that people can truly imagine achieving (Senge, p 142). The United States Constitution outlines five functions of government: 1) to establish justice; 2) to ensure domestic tranquility; 3) to provide for the common defense; 4) to promote general welfare; and 5) to ensure liberty.

Government is the official machinery of the political system as the political system is the “legitimate, order-maintaining or transforming system in the society” (Heady, 1984, p 7). Heady also states that government is the arm to execute the political system, it performs six functions including:

- Interest articulation - the formulation of demands
- Interest aggregation - combination of demands in the form of alternative courses of action
- Rule-making - formulation of authoritative rules
- Rule application - application and enforcement of rules
- Rule adjudication - adjudication in individual cases of applications of these rules
- Communication - both within the political system and between the political system and its environment

(2) Values/Beliefs. Democratic values as they have evolved in the American republic include impartiality, justice, and due process to sustain a nation of law (Rohr, 1996; Rosenbloom, 1996); liberty, equity, and human dignity; accountability (and hence disclosure); promoting a responsive process that is accessible to the citizens and citizenship rights and obligations, such as informed participation and compassion (Lewis and Catron, 1996).

According to Lewis and Catron (1996) in “Professional Standards and Ethics,” there are “ethical principles and duties” that “reflect behavioral goals and responsibility and are linked to our vision of a good society and worthy relationships” (p 74). These principles, reciprocity, reversibility, utility, and universality and consistency, can be substantive or procedural and may “center on sacrosanct ideas such as those embodied in the Bill of Rights or focus foremost on results and outcomes” (p 74). These fundamental ethical principles influence behavior by “harmonizing duties and values without dictating the specific resolution” (p 74).

(3) Strategy. Studies show that strategic planning processes in public organizations are similar to those in other organizations but are more likely to be subject to “interventions, interruptions, and greater involvement of external authorities and interest groups.” This planning is made up of a set of “concepts, procedures, and tools designed to help leaders, managers, and public administrators figure out what their communities or organizations should do to survive and prosper.” As a result, strategic planning is typically used to “chart a basic direction for an organization in light of its mission, mandates, internal and external environments, and key stakeholder interests” (Bryson & Roering, 1996, p 704).

Strategy is generally thought to be intentional in which the term is derived from the idea of “military strategy, of using the resources and strengths of a military force to achieve goals – military victory, usually by forming plans and objective and executing them” (Rainey, 1995, p. 77). The concept is “more attractive than similar rubrics, such as planning and business policy, because of this emphasis on assessing one’s own general goals, one’s strength and weakness, and the external threats and

opportunities that one faces in deploying ones forces to best advantage in pursuit of those goals” (Rainey, 1996, p. 101).

Ring (1997) applies a modified portfolio to public sector strategy making. He uses “tractability of the problem” and “public support” as the key dimensions. Resources are made available when problems are manageable and public support is high. They in turn can use these resources when problems are difficult to solve and public support is low. Similarly, Rubin (1988) suggests that strategic patterns will differ according to time horizon for the policy issue. A short time constraint lends itself to an emergent strategy as government policy and action seek to address the changing environment and emergencies.

## **2. Design Factors**

The design factors component of the Organizational Systems Framework addresses how the work of the organization is accomplished (Roberts, 2004). It also includes the organizational structure, whether it is a centralized or decentralized decision-making authority, and how the labor is divided. These factors include the structural integration within an organization or how the groups work together to accomplish the mission in total. In addition, it addresses the subsystems within an organization including the financial management, human resources, communication, and acquisition systems and how the systems performance is measured. What do we know about design factors within the nonprofit and public sectors?

### ***a. The Nonprofit Sector***

Nonprofit organizations display five salient characteristics: 1) the tendency to collaborate with other organizations; 2) diverse income sources and a focus on earned revenues; 3) measured outcomes; 4) flat, nonhierarchical, team-based workforces with open-communications; and 5) clear lines of communication and responsibility between staff and the board of directors (Light, 2002). Several components of the design factor element within the Organizational Systems Framework characterize the nonprofit sector’s people, tasks, and subsystems.

(1) People. In the late 1990’s, nonprofit organizations numbered over 1.2 million, employed over 11 million paid workers (which amounted to 7

percent of the nation's workforce) and 5.7 million full-time volunteers (Salamon, 2002). The nonprofit sector has a highly motivated workforce, with employees and volunteers displaying a "greater sense of mission, a deeper desire to make a difference, and a greater love of their work than any other workforce in America" (Light, 2002, p 78). Employees of nonprofit organizations often forego more lucrative jobs in the for-profit sector as a result of this greater sense of mission and personal satisfaction in their work for nonprofit organizations.

The nonprofit sector has seen an increase in young volunteers who seek work that offers meaning to their young lives. The people also vary depending on the mission of nonprofit activity. The majority of the sector's mutual benefit organizations are professionals seeking to exchange information with other professionals, while service activity employees and volunteers commit more time and energy to the task at hand.

(2) Tasks. Nonprofit organizations make significant contributions to the nation and community primarily in four fields – health, religion, education, and social services. The wide range of activities within the nonprofit sector make it difficult to accurately generalize the tasks performed. In the health field, for example, a hospital provides specialized and formalized medical care while also employing volunteers to serve as family liaisons and patient hospitality providers. In the social services field, an advocacy group may employ attorneys to challenge laws that violate their cause while employing volunteers to raise public awareness of their issue.

(3) Structure. The nonprofit sector is largely characterized by decentralized organizations with flat command structures. These structure allows the organization to respond to the needs of the community with fewer employees. Employees and volunteers often are organized around the task or activity they are supporting.

In addition to the greater sense of mission in their work, nonprofit employees and volunteers also are able to see the results of their work firsthand as a result of this structure. Though this ability often may results from the small size of many

nonprofit organizations, it also is reflective of the ownership and sense of mission that many employees and volunteers embody.

(4) Process/Subsystems. The subsystems element within the systems framework contains the most descriptive measures of the nonprofit sector. Financial and human resources management subsystems are prominent among these systems, with rewards and communication elements playing important roles in support of the processes within the nonprofit sector.

The financial subsystem describes how people are held accountable for resources, how the organization's budget is developed and controlled, and how the performance of these systems is measured. Perhaps the most restrictive factor facing the nonprofit organization is the financial constraint placed upon them by the nature of their being. Nonprofit organizations exist to bring together "people in a way that makes collective meaning out of actions that are important to them" (Herman, 1994, p 45). They bring people together to address the greater good they all believe in without necessarily all the resources they need to attain that good. Limited financial resources are the primary constraint driving that ability to deliver the program.

Once largely without the ability to charge fees, nonprofit entities were forced to generate revenue through donations and grants. As donations started to decline – from 53 percent of income in 1973 to 24 percent of income in 1993 (Brooks, 2003) – nonprofits became increasingly reliant on fees to sustain growth. This growing reliance on fees presents a challenge for many nonprofit organizations – for which they are held accountable. Nonprofit organizations often face a tendency to commercialize their mission to compete with resources in their other sectors in an attempt to build a constituency willing to pay the fees contributing to the bottom line and to the survival of the organization. This accountability challenge can present a compromise of the mission in an attempt for the nonprofit organization to survive.

Aside from financial control and reporting systems prevalent in all organizations, nonprofit organizations face a unique challenge -- that of building public trust. With constrained budgets within the public sector, the demand for service of



nonprofit organizations continues to grow. As the nonprofit sector emerges to meet that increasing demand, they are challenged to build and maintain the public trust. Donors are asking and demanding that their contributions be spent wisely and in accordance with the mission of the organization that spurred their donation. The public requires that nonprofit organizations embody their mission in the daily conduct of their operations. Many nonprofit organizations exist to serve the poor, hungry, and needy. The public and donors place a large amount of trust in these organizations to respond to this portion of society. These organizations build a public trust to ensure that individuals are willing to come to the nonprofit organization when needing help and feel comfortable doing so.

The potential conflict of interest inherent in the two characteristics discussed above can pose a challenge to many nonprofit organizations. To whom is the organization accountable – the donors, grantors, volunteers and employees, beneficiaries, or the public at large? As stewards of these funds, it is the nonprofit organization's responsibility to ensure that the funds are spent for their intended purposes (Henderson, 2003). It is the nonprofit organization's responsibility to ensure that all stakeholders of those funds – donors, grantors, and the public – are aware of the organization's missions and the priority of those missions. While the for-profit sector is principally responsible to the owner or shareholders to return as large a profit as possible, the nonprofit sector faces multiple responsibilities. The nonprofit sector often is faced with the challenge to stay focused on its core mission while appealing to the greatest number of prospective donors. Failing to meet both challenges will result in an organization that is not responsive to either and faces losing the support of the contributors – both financially and physically – as well as the constituents they serve.

The human resource management system discusses how organizations recruit, train, promote, terminate, and retire people. It also addresses whether the organization has the right kind of people. These are unique challenges in the nonprofit sector as a substantial portion of the workforce consists of volunteers. As the size of the volunteer workforce increases and the tasks become more complex, managing the workforce becomes more of a challenge.

As the size of the nonprofit sector has increased, so has the demand for volunteers. This demand places organizations in competition with each other to attract and retain the most valuable and experienced talent. Nonprofit organizations now employ trained human resources staff comparable to those of the for-profit and public sectors. Nonprofit organizations develop marketing plans to prospective volunteers, appealing to individuals who hold values and beliefs common to the organization. Another aspect of the human resources program is to develop job descriptions that not only appeal to volunteers and employees but accurately reflect the work to be done. Volunteers give freely of their time only if they believe their work is meaningful and supports the cause of the organizations. Employees often forego more lucrative employment in the public or for-profit sectors to accept positions in the nonprofit sector. As a result, the work they perform has the meaning they intended to receive in return for the financial sacrifices they make. Effectively matching the right individual to the right job is critical to making this connection.

Personal recognition is one of the most effective tool that nonprofit and public organizations have to reward performance. Although customer satisfaction may be the primary goal of an organization, keeping morale high and employees enthusiastic about their tasks adds to customer satisfaction. Public and nonprofit organizations generally do not have the benefit of using financial rewards to induce performance. Furthermore, financial reward is not the most effective means to induce performance. A survey by Robert Hall International found that organizations “risk losing their good workers if they do not reward their employees with praise” (Perry, 1996, p 145). The survey also found that lack of recognition and praise are the main reasons why people change employers.

***b. The Public Sector***

The public sector by design is administrative and involved in policy making. These characteristics are represented not only in the institution but also in the people who develop and administer these policies and operate public sector

organizations. Several components of the design factor element within the Organizational Systems Framework characterize the public sector's people, tasks, and subsystems.

(1) People. Generally, values held by public sector employees differ from those of private sector employees, in that they are motivated more by public service than monetary incentives. On the other hand, studies have shown that public servants have lower levels of work satisfaction and commitment to the organization than private sector employees. These findings may be due to the fact that "public servants perceive greater administration constraints on extrinsic incentives such as pay, promotion, and disciplinary actions" and "public servants perceive weaker relations between performance and extrinsic rewards, and are compensated through intrinsic incentives" (Rainey, 1996, p 74). These studies show no direct relationship between performance and rewards.

The public sector can be characterized as having an older, more educated workforce that is well-paid and likely to remain in the public sector throughout their career. The proportion of workers age 45 and over is substantially greater in the public sectors than in the for-profit and nonprofit sectors. Almost half of the public sector workforce was over 45 in 2002. Public sector workers also show higher levels of educational attainment than private sector workers. Almost 75 percent of public sector workers have an education beyond a high school diploma compared to slightly less than 50-percent for the private sector. More than half of the public sector workers have at least a bachelor's degree (Greenfield, 2003).

The public sector also is better paid than the private sector. According to the Bureau of Labor Statistics, "the average pay of a U.S. public sector employee was one percent greater than that of a worker in the private sector. This, however, varies depending on which government sector is compared. Federal and state workers earned 35 percent and five percent more, respectively, than private sector workers; however, local government workers earned seven percent less than those in the private sector" (Greenfield, 2003, p 3). The public sector is also more likely to remain employed within the sector as 36 percent of public policy and administration graduates

who started work in the public sector, stayed in the public sector, compared to 10 percent remaining in the private sector and eight percent remaining in the nonprofit sector (Light, 2000, p 28).

(2) Tasks. Tasks performed on public sector organizations are far reaching as they serve the interests of the populace. The public sector is comprised of institutions for creating and administering policies. These “institutions for the making of policy, implementation and administration are as important to national development as economic resources” (Lane, 1993, p1).

The tasks of the public sector often are characterized as highly structured and plagued by bureaucracy and red tape, with procedures and regulations restricting the initiative of its employees. Public organizations and managers often are involved in the production of public goods or the handling of significant externalities, such as outputs not readily transferable to economic markets at a market price. For example, the Department of Justice is tasked by the government to interpret laws made by the legislature branch. Government activities are often coercive, monopolistic, or unavoidable. Laws require all motorists to register their vehicles and obtain an operators license from a single source – the Department of Motor Vehicles. Participation in consumption and financing of activities is often mandatory, requiring an individual to pay an annual registration fee to operate the vehicle on public roadways. Government activities often have a broader impact and greater symbolic significance.

(3) Process/Subsystems. Public accountability generally is divided into those who believe that modern bureaucracy is capable of self-control and those who argue that it is necessary to maintain oversight over government agents and agencies (Rainey, 1996). Various stakeholders hold expectations about what public managers do and how they do it. These stakeholders influence public organizations’ behavior and are typically perceived to have a “rightful” claim on the actions of public agencies. They lobby for change and accountability through public interest groups and the election of public officials sharing the same sentiments. The lack of a market economy for public services prevents competitive forces from exerting control.

Government organizations struggle to establish and maintain control over those who act as their agents. “Public administrators’ concern is how to operate in the context of various complex accountability relationships and still accommodate the numerous expectations they face” (Perry, 1996, p 176). Public Managers answer to a number of control entities and must balance their expectations to these competing forces. Public managers must figure out what to do and how to do it and most importantly, who they serve.

### **3. Culture**

The culture element of the framework describes “how people interact and behave toward one another and how they manage differences” (Roberts, 2004). It also considers the presence of subcultures within an organization and their impact on the organization’s ability to accomplish its mission and objectives. It is the “manifestation of the organization’s espoused values and beliefs that emerges from its direction and design elements” (Roberts, 2004).

Organizational culture is the pattern of shared meanings in an organization (Trice and Beyer, 1993). Similar minds with similar interests contribute to how people interact within an organization and how they manage disputes. Multiple cultures and subcultures may exist within an organization. Subcultures generally form around occupational specializations, subunits or locations, hierarchical levels, labor unions, and countercultural groups such as rebellious units.

#### ***a. The Nonprofit Sector***

The nature of nonprofit work leads to a unique culture within many organizations as employees and volunteers are motivated by a greater sense of mission (Light, 2002). Nonprofit employees come to work each morning because they love their jobs and want to help people (Light, 2002). This closer attachment to work and the ability to describe how their work directly contributes to the mission of the organization results in a workforce that is closer to the tasks and more focused on the mission rather than personal rewards.

The nature of the work for many nonprofit organizations also contributes to a unique culture. Many nonprofit organizations exist to serve fellow citizens in their times of greatest need. This environment enables nonprofit sector employees and volunteers to focus on the work at hand and minimize or eliminate any personal differences that may exist. Volunteers are likely to seek out another organization if the sense of mission does not meet their expectations or if the culture doesn't suit their personality.

Advocacy organizations exist to develop and promote policies to achieve a just and humane society. Individuals participating in these organizations are motivated by a shared compassion for the disadvantaged and by a higher belief in what is just. This common belief often evokes a passion that is greater than that shared by participants in other organizations. They are deeply united to promote a cause they believe is just and righteous. Member benefit organizations often share a culture of mutual benefit where most individuals expect to get out what they put into the organization. They are more passionate about the topic and promoting it to others who share the same passion than they are of promoting it to uninterested parties. The culture of the organization can vary as the size, scope, and reach of the organization varies.

***b. The Public Sector***

Public agencies often have a single dominant occupational or professional specialization. This specialization lends itself to the natural formation of a strong culture within that organization. In organizations lacking a single specialization, "strong differences between cultures or subcultures obviously complicate the challenge of forging consensus on culture, cultural changes, and priorities" (Rainey, 1996, p 276). This opposition can lead to divisive subcultures, often counterproductive to unit cohesion and mission accomplishment.

The nature of public sector organizations result in greater ambiguity, multiplicity, and conflict than those of the private sector. Diverse stakeholders and conflicting values make it difficult to measure performance. Generally, goals are

conflicting and trade-offs are made (efficiency versus due process and society equity) (Rainey, 1996). A culture which espouses the values of the organization enables trade-offs to be made.

#### **4. Results**

The results component of the framework includes outputs and outcomes. The outputs identify what the organization produces in terms of goods and services while outcomes address the consequences of these outputs for the stakeholders (Roberts, 2004). The Organizational Systems Framework seeks to identify how an organization measures its outputs as an indicator of its performance. In the nonprofit and public sectors, there are few, if any, profit indicators or incentives in the pursuit of social or public service missions. Even though it is not easy to describe what makes a high-performance organization, it is easy to recognize one. Perry (1996) states that one can recognize a high performance organization when:

- Anyone in the organization can state its mission and values.
- It is always looking for something new.
- Customer satisfaction is high.
- A “failure” is considered a learning experience.
- Its employees frequently work in teams.
- The leader is a partner to the staff members.
- Others study and write about it and everyone wants to take credit for its accomplishments.
- It is a laboratory and its own best model

##### ***a. The Nonprofit Sector***

For nonprofit organizations, the results are as varied as the type of organization. Member benefit organizations provide a forum for sharing and promoting a common interest as the desired output. The output in this type of organization depends on the individual - they can get out of it what they put in to it. Measuring the output is based entirely on the expectation of the individual, and the measure of output can only be determined by the individual.

The outputs for advocacy organizations can be more difficult to measure as they exist to promote a purpose or cause. American Humane, for example, exists to promote both child and animal protection through policy, education, and promotion of its cause to the public. Lobbying for new legislation can result in tougher laws and stricter sentencing guidelines for individuals convicted of crimes violating those laws while public education can result in a reduction of those crimes within a community. Both of these outcomes are measurable. What is more difficult to measure is the impact of their work on the individual. Did their work prevent any incidents? That is a challenge for many nonprofit organizations whose work does not result in a tangible output.

Service organizations exist to provide assistance to those in need with the output being as varied as the organization. Homeless shelters provide assistance to those individuals who call the street home. They provide a hot meal, shower, and bed to those in need of a place to stay. The output in this instance is measurable, how many people were fed and sheltered during the day, month, or year.

Measuring outcomes results in a similar challenge for many nonprofit organizations – to whom is the organization accountable? Donors often demand certain outputs and programs that they pledge to support while regulators provide legitimacy through permits and licensing. Being responsive to the needs and desires of all stakeholders without losing focus on the core mission of the nonprofit organization can overwhelm many organizations.

It is also difficult to measure the outcome when it is not apparent. Many nonprofit organizations exist to educate the public and to promote awareness. The American Red Cross, for example, offers first aid and CPR training with the output being the ability of an individual to respond to a heart attack and render aid as necessary. The desired outcome is a reduction in deaths from heart attack, which is difficult to measure due to the number of other variables that affect deaths from heart attack. How is the outcome of the CPR program measured when diet, exercise, and family history of heart disease also contribute to the number of heart attack deaths? Defining the desired output and outcomes to enable measurement toward those desired goals can be as challenging as attaining the desired results.



***b. The Public Sector***

As demand grows for government services and finances become more constrained, so has the pressure for government organizations to justify the expenditures for their programs. No longer are governmental organizations basing their results on costs, processes, and the completion of work loads. “Regular reliable information on service quality seems to be vital today for making resource allocation and process decisions” (Perry, 1996, p. 334). The passage by Congress in 1993 of the Government Performance and Results Act, the 1993 issuance of Executive Order 12862 on “Setting Customer Service Standards,” and the 1994 establishment of formal agreements between department heads and the president have “opened up a major new emphasis in the federal government on performance measurement focused on service quality and outcomes” (Perry, 1996, p. 284). President George W. Bush’s Management Agenda and the Program Assessment Rating Tool have continued this movement toward performance measurement and accountability in government programs and organizations.

Public organizations face a unique challenge as many of their goods and services are viewed by their constituents as an entitlement. Since many individuals will not consider an alternative to satisfy a need for which they are entitled, poor performance can have a dramatic effect. Measuring the performance of activities accepted as routine can present a challenge. Public sector organizations can receive performance data of its agencies on either a regular basis or an ad hoc basis. Ad hoc studies often are called “program evaluations,” which are in-depth analyses that attempt to assess the effectiveness of particular services or programs. Ad hoc studies are designed to determine if a program is succeeding in its objectives and if so, how effective is the program. Operational management is better measured through regularly scheduled performance measurements and provides officials with desired information on service outcomes. Public managers can receive feedback on a continuous basis from scheduled measurements if conducted frequently and efficiently. Continuous monitoring provides managers with regular feedback making it easier to identify problems and take timely action. However, regularly scheduled performance measurement may not allow

managers to identify to what extent various government actions (rather than external factors) affect program outcomes.

Since programs typically have multiple elements, one single performance indicator is rarely an effective tool in measuring service quality. Programs have many elements to be tracked with some even having conflicting goals. A city's transportation department may have a goal to move traffic faster which could affect safety and air pollution goals of other departments. Managers should design measurement processes that track each important element, as well as the relative importance of each element. Users of the data will need to determine what actions are necessary relevant to each of their programs.

Public organizations should track not only the final outcomes of their programs, but also what can be called intermediate outcomes. Intermediate outcomes are reflections of the program external to the organization. Usually, managers have more control over intermediate outcomes, thus they are easier to control and measure. Positive intermediate outcomes are expected to lead to desired outcomes. Even though intermediate indicators are easier to obtain and measure, they may not be able to accurately measure the output produced by the agency. Oddly, managers are more often comfortable with intermediate rather than final outcomes as they are more manageable and measurable. Public managers are able to categorize outcome indicators by these two categories in order to help them and other users of outcome data to better understand the significance of the various data (Perry, 1996).

### **C. COMPARISON OF THE SECTORS**

Using the Organizational Systems Framework, we were able to identify the attributes prominent within each sector. As Arthur Brooks alluded, there appear to be several attributes common to both sectors. This section discusses the apparent overlap and identifies attributes common to the two sectors.

Frequently, nonprofit and public sector organizations work together for the accomplishment of a greater goal. Successful collaboration is an attribute that both sectors share as well as trying to accomplish their mission without the benefit of financial

gain. The areas common to both sectors present opportunities for the DoD to capture lessons from best practices.

## **1. Organizational Direction**

In “On Being Nonprofit: A Conceptual and Policy Primer,” Peter Frumkin, a professor affiliated with Harvard’s Hauser Center for Nonprofit Organizations, breaks down the mission of organizations within the nonprofit sector into four core functions discussed in section one of this chapter. The mission of public sector organizations is to serve one primary function of public service. Frumkin’s four core values are similar to the five functions as outlined by the U.S. Constitution as both serve to promote the common goals of humanity and equality for all constituents. The values and beliefs espoused within the nonprofit sector are those of humanity, neutrality, impartiality, and independence while the public sector displays the values of impartiality, justice, liberty, equity, and human dignity within a democratic society.

## **2. Design Factors**

While it is impossible, or at least not very useful, to generalize about task and technology, there are similarities in the two sectors in the design factor elements of people, tasks, and process/subsystems. The people who work or volunteer in both sectors are motivated more by a sense of mission or public service than by financial compensation when compared to for-profit sector employees. These two types of organizations generally attract like-minded people who share organizational values. The two sectors also share a common accountability challenge. The sectors are accountable to their employees or volunteers as well as to their financial contributors – donors for the nonprofit sector and the taxpayer for the public sector.

### ***a. People***

Within both sectors, public servants, nonprofit employees, and volunteers share many of the same attributes. With a clear and defined mission, the motivation for people that receive little or no financial reward is based more on job fulfillment. Job fulfillment is an important element in employee motivation. The more people share the values of the organization they serve, the greater sense of duty they have. Since one of the public sector’s values is equality, they have relatively inflexible pay scales that do not

permit differentiation by performance, but rather by rank and seniority. Thus managers must use tools other than money to motivate employees. While public sector employees are compensated nearly as well as the for-profit sector, the pay scales are much more compressed. Senior public servants rarely make more than \$130,000 per year. Conversely, the nonprofit sector relies heavily on unpaid volunteers, yet pay market rates for the most senior executive, some making in excess of \$200,000 per year.

Despite differences in financial compensation, employees and volunteers within both sectors share a sense of service. Nonprofit sector employees display a sense of mission and purpose in their work. Public sector employees share this trait as service to country or service to community and are the reason for many individuals entering this sector. People are the essential resource in any organization. Both sectors also require a broad mix of personal attributes: knowledge, skills, values, commitment, aptitude, and capability (Perry, 1996).

***b. Tasks***

The tasks within the nonprofit and public sectors can be as varied as the form of the organizations within the sectors. The nonprofit sector includes organizations from advocacy groups promoting noble causes, nonprofit hospitals serving the uninsured and most at need, and professional societies supporting the exchange of information and ideas for mutual benefit. The tasks and jobs within this sector require a wide variety of skills and abilities. The public sector includes a similar variety of jobs from the highly skilled public attorney to the unskilled trash collector. Since there is so much variability in the tasks with both sectors, drawing a conclusion about patterns and relationships is not likely to be a profitable exercise.

***c. Processes/Subsystems***

Nonprofit and public sectors share a similar accountability challenge that places demands on their processes and subsystems. The nonprofit sector is experiencing new demands and restrictions by their donors who require strict funds accountability. The nonprofit sector is also accountable to its volunteers and must ensure that their time and work meets expectations that inspired them to donate their time in the first place. The public sector faces similar challenges. As the demand for constrained budgets

grows, the public sector is pressed to maximize a return on the taxpayer's investment. They often face a similar challenge with their human resources – to do more with less. Human Resources Management and Financial Management are two subsystems the sectors employ to manage these challenges.

(1) Human Resources Management. A mission with a clear vision serves as the base motivator for public and nonprofit organizations. A clear vision provides an effective substitute for leadership in which people are empowered to lead and manage themselves under the guidance of the organization. An effectively communicated vision takes on the “normative symbol” which is an effective motivator for organizations that cannot exercise utilitarian or coercive power. Normative power tends to generate more commitment than either utilitarian or coercive power (Etzioni, 1964, p 60). Normative power uses symbolic means to build up self-oriented interest within an organization.

People are the essential resource in any organization. Both sectors require a broad mix of personal attributes: knowledge, skills, values, commitment, aptitude, and capability (Perry, 1996). Both sectors strive to bring together the right mix of human resources in order to accomplish an organizational mission. Both sectors are challenged to strengthen the relationship between human resource management and organizational strategy.

(2) Financial Management. There is a consistent pressure on both public and nonprofit sectors to be better stewards of the tax dollar and donations, which has led to managers of both sectors to institute better financial accounting standards. Financial condition is the ability of an organization to meet financial obligations to its creditors, consumers, employees, and stakeholders. The financial conditions of both sectors vary over time.

Nonprofit and public organizations manage by minimizing deficits versus maximizing profits. Another challenge is clearly visualizing how each program offers opportunities for revenue maximization while finding what core programs to support within a given budget.

Financial condition is rooted in the sector's economic environment for both the public and nonprofit sectors. The ability of these sectors to meet financial and service obligations is affected by the overall economy. The public sector, for example, gains most of its income from taxation. As the economy grows, so does tax revenue which can lead to increased spending with new programs and services. If not managed judiciously, a downturn in the economy can present budgetary shortfalls and service cuts. The nonprofit sector is similarly influenced by the economy and external events as tough economic conditions can challenge even the most generous donor.

The American Red Cross is faced with challenges to provide the program level designated in their Congressional Charter and in their association with the International Red Cross Movement. Not only is the American Red Cross required to answer an unpredictable call to disaster relief, but it is required to maintain a level of financial stability and accountability mandated within their Congressional Charter. Most recently, the American Red Cross faced a decline in donations following September 11, 2001. Facing a 20-million dollar deficit in its disaster relief funds, the American Red Cross performed its mission during the 2004 hurricane season. Coupled with the increase in donations that follow large scale disasters such as the four hurricanes to hit the southeastern United States, the American Red Cross embarked on an aggressive fund raising campaign to restore their disaster relief fund.

(3) Culture. The similarities of culture within public and nonprofits lie within the desires of the organization to serve society. People within these organizations generally share values, beliefs, and norms of appropriate behavior. In addition, they typically join organizations that share like values in which the espoused culture itself is the recruiting tool. This process can be a source of great reward for individuals who receive little financial compensation.

Public and nonprofit organizations follow many of the "Dimensions of Organizational Culture," which were outlined by Hofstede, Neuijen, Ohaya, and Sanders (1995) and shown below:

- Member identity: the degree to which individuals identify with the organization as a whole rather than with a subgroup or specialization.

- Group emphasis: the degree to which work is organized around groups rather than individuals.
- People focus: the extent to which management considers the effects its decisions have on people in the organization.
- Unit integration: the amount of encouragement toward coordinated, interdependent activity among units.
- Reward criteria: the extent to which rewards are based on performance rather than seniority or favoritism.

Both nonprofit and public sectors possess cultures that display many of the dimensions above. The members tend to have identity which facilitates group work and unit cohesion. Their missions often are centered on providing services or benefits to individuals inside or outside the organization as opposed to the for profit sector, which often has a tangible product or impersonal service as the object of its attention. Again, a lack of financial compensation leads to rewards based on performance.

#### (4) *Results*

Both public and nonprofit organizations have to perform their functions and be able to demonstrate their usefulness to society. Identifying and measuring that usefulness and relaying it to the constituency can be as great a challenge as performing the functions.

a. **Outputs.** The challenge that nonprofits and public organizations share is that they produce non-market goods and thus do not have the same measurable performance indicators as the for-profit sector. Performance indicators are typically measured for an overall program or service in non-financial terms. This is particularly challenging in the nonprofit and public sectors where the goods and services produced are intangible.

b. **Outcomes.** Being responsive to the needs and desires of all stakeholders without losing focus on the organization's core mission can overwhelm many nonprofit and public sector organizations. If the public feels that either a public or nonprofit is not properly managing its tax dollars or donations, they feel less inclined to

support the organization. Similarly, if stakeholders feel that the organization is not providing their anticipated outcome, they are less likely to support tax increase initiatives or fund raising efforts.

Both sectors face the challenge of how to establish and maintain control over those who act as their agents (Perry, 1996). They constantly operate in the context of various complex accountability relationships and still accomplish the numerous expectations they face. Both sectors, in a sense, face the accountability of their performance in competition with each other while answering to their respective stakeholders.

#### **D. CONCLUSION**

Public and nonprofit organizations operate in a non-market arena that generally does not produce a readily marketable good or service. These two sectors differ from the private sector in the sense that they are mission-driven instead of profit-driven. Although all sectors must concentrate on what the customer wants and how they must achieve customer satisfaction, successful mission-based organizations incorporate the mission statement throughout the organization.

Within mission-based organizations, the emphasis is on what is to be accomplished, who the stakeholders are, and what the customer expects. Public organizations face a similar relationship with their stakeholders although public sector constituents feel a sense of entitlement to the services provided. Public sector organizations need to function with a sense of flexibility and thus “absorb the crushing demands emanating from the questions of entitlement, deprivation, and the allocation of resources” (Drucker, 1989, p 43).

Both sectors display a sense of mission and public service within many of their activities and are populated with personnel who display this sense of mission in their work. They espouse similar values and beliefs including liberty, justice, human dignity, and equality among all individuals. They also shape their strategy based on external factors, including current political, social, and economic conditions. Both nonprofit and



public sector organizations are largely responding to the requirements of a society for which profit is not relevant. They also share similar cultures where a sense of mission and service is a key component and produces results that are often not easily measurable or apparent in the short or long term. As shown above, nonprofits share many of the same attributes and challenges as public sector organizations.

Although public and nonprofit organizations share many of the same attributes, there are some core differences. Funding for public organizations is drawn from taxation, which is coercive in nature, versus donor willingness to support a function. Public organizations are able to pay public servants while nonprofits rely on volunteers to support their mission. Public organizations are political in nature, whereas the constituents drive the nature of the public organization to fulfill the needs of the public.

### **III. THE AMERICAN RED CROSS AS A SOURCE OF LESSONS LEARNED**

This chapter looks at the case of The American Red Cross as an example of the principles described in the preceding sections and shows how such organizations may be worth studying by the public sector. The American Red Cross falls within Frumkin's core function of delivering critical services (Frumkin, 2002). It has a detailed mission statement and a large motivated volunteer workforce. The American Red Cross also shares many of the attributes common to both the nonprofit and public sectors. Given the similarities in mission areas (such as deployment in response to disaster), we believe that the Defense Department could learn management lessons in the areas described in Chapter III by studying the American Red Cross.

We use current literature from the American Red Cross including annual reports and financial statements, website data, and press releases to examine the mission, history, personnel, and character of the organization. We also interviewed Mr. Jim Starr, Vice President for Corporate Strategy at the American Red Cross, to probe further into specific areas and to verify some of our findings.

#### **A. ABOUT THE AMERICAN RED CROSS**

The American Red Cross is headquartered in Washington DC with over one thousand local chapters throughout the country. It is dedicated to helping make families and communities safe at home and throughout the world. An organization led and staffed largely by volunteers, the American Red Cross annually (Red Cross, 2004):

- Provides nearly half of the nation's blood supply
- Trains nearly 12 million people in life saving skills
- Mobilizes relief to victims of natural disasters
- Provides direct health services to nearly 3 million people
- Assists international disaster and conflict victims in other countries

- Transmits over one million emergency messages to members of the U.S. Armed Forces and their families.

The American Red Cross is one of 175 national societies of the International Red Cross and Red Crescent (IRC) Movement. IRC organizations undertake activities to relieve human suffering throughout the world, whether in war time, in response to natural or man-made disasters, or in order to prevent disasters from occurring and crossing all political, racial, and religious boundaries while maintaining a neutral stance in conflicts.

### **1. History**

The American Red Cross was founded by Clara Barton on May 21, 1881. Barton discovered the International Red Cross Movement during a trip to Europe and campaigned for the establishment of the American Red Cross and ratification of the Geneva Convention following her return to the United States. During her 23-year tenure as the head of the American Red Cross, Barton oversaw the first domestic and overseas relief efforts. She also lobbied for the inclusion of peacetime relief work into the International Red Cross Movement. In 1900, the American Red Cross received its first congressional charter and a second was received in 1905 and remains in effect today.

### **2. Holds a Congressional Charter**

The American Red Cross has a unique relationship with the federal government. It is “an independent entity that is organized and exists as a nonprofit, tax exempt, charitable institution pursuant to a charter granted to it by the United States Congress” (Red Cross, 2004). It has a legal status of “a federal instrumentality” as a result of its chartered requirements to “carry out the purposes” of the Geneva Convention in the United States. Specifically, the American Red Cross is authorized by Congress to:

- “Furnish volunteer aid to the sick and wounded of armies in time of war.”
- “Perform all the duties required of a national society in accordance with the convention.”
- “Succeed to all the rights and property” of the foregoing Red Cross corporation of the District of Columbia
- “Act in matters of voluntary relief and in accordance with the military and naval authorities as a medium of communication between the people of the United States ... and their armies ...”

- “Carry on a system of national and international relief in time of peace and to apply the same in mitigating the sufferings caused by pestilence, famine, fire, floods, and other great national calamities.”
- “Devise means for preventing disasters and “to promote measures of humanity and welfare of mankind.”

(Red Cross, 2004)

The charter granted full legal standing to the American Red Cross and required it to submit a full financial and accounting report of its proceedings to Congress annually. These reporting requirements were the result of the poor financial accounting practices of its founder, Clara Barton. The Charter attempted to instill fiscal responsibility and systematic governance through a Board of Incorporators and ultimately the committee chairman and principal officer of the organization. It also established the state and territorial societies. Today, a 50-member all volunteer Board of Governors leads the organization with the President of the United States serving as the honorary chairman of the Red Cross. The President appoints eight governors including a chairman of the board who then elect the president of the Red Cross. This president is responsible for carrying into effect the policies and programs of the board.

### **3. Mission Philosophy**

The American Red Cross, a humanitarian organization led by volunteers and guided by its Congressional Charter and Fundamental Principles of the International Red Cross Movement, will provide relief to victims of disasters and help people prevent, prepare for and respond to emergencies (Red Cross, 2004).

It adheres to the Principles of the International Red Cross:

Humanity: The International Red Cross and Red Crescent Movement, born of a desire to bring assistance without discrimination to the wounded on the battlefield, endeavors, in its international and national capacity, to prevent and alleviate human suffering wherever it may be found. Its purpose is to protect life and health and to ensure respect for the human being. It promotes mutual understanding, friendship, cooperation and lasting peace amongst all peoples.

Impartiality: It makes no discrimination as to nationality, race, religious beliefs, class, or political opinions. It endeavors to relieve the suffering of individuals, being guided solely by their needs, and to give priority to the most urgent cases of distress.

Neutrality: In order to continue to enjoy the confidence of all, the Movement may not take sides in hostilities or engage at any time in controversies of a political, racial, religious or ideological nature.

Independence: The Movement is independent. The National Societies, while auxiliaries in the humanitarian service of their governments and subject to the laws of their respective countries, must always maintain their autonomy so that they may be able at all times to act in accordance with the principles of the Movement.

Voluntary service: It is a voluntary relief movement not prompted in any manner by desire for gain.

Unity: There can be only one Red Cross or Red Crescent Society in any one country. It must be open to all. It must carry on its humanitarian work throughout its territory.

Universality: The International Red Cross and Red Crescent Movement, in which all Societies have equal status and share equal responsibilities and duties in helping each other, is worldwide.

(Red Cross, 2004)

#### **4. People**

The American Red Cross “depends on volunteers, who constitute 97-percent of our total workforce, to carry out our humanitarian work” (Red Cross, 2004). The volunteer workforce is integrated into every aspect of the mission including relief to victims of natural disasters and helping people prevent, prepare for, and respond to emergencies. Red Cross volunteers are “individuals who reach out beyond the confines of their paid employment and of their normal responsibilities to contribute time and service to a not-for-profit cause in the belief that their activity is beneficial to others as well as satisfying to themselves” (Red Cross, 2004). American Red Cross by-laws state

that “any person shall be a member of the American Red Cross if he or she (a) makes a monetary contribution to the American Red Cross or any of its units, (b) performs volunteer services for the American Red Cross or any of its subdivisions or unites, or (c) donates blood to the American Red Cross” (Red Cross, 2004).

The role of the volunteer within the American Red Cross is embodied within its volunteer philosophy that states it “is and ought to be an organization governed, supported, and primarily staffed by volunteers. The paid staff [members] are enablers of, and not substitutes for, volunteers and that principal management roles are filled by teams of volunteers and paid managers working together and sharing responsibilities” (Red Cross, 2004). Today, the American Red Cross relies on over 1 million volunteers to complete its humanitarian missions.

## **5. Financial Environment**

Although the American Red Cross is chartered to carry out responsibilities delegated from the federal government, it is not a federal agency and receives no recurring federal funding. It does seek federal appropriations under limited circumstances when the funding requirements are beyond that supported by the charitable public. The American Red Cross also receives a limited amount of funding from federal and state government agencies under contracts to “provide material aid and assistance to support the Red Cross in fulfillment of specific instances of its charter obligations” (Red Cross, 2004).

The American Red Cross had total operating revenues and gains of \$3.034 billion in fiscal year 2003. The American Red Cross received over 71 percent of its operating revenues from cost recovery from the services it provides including course fees and materials and whole blood and tissue services (Red Cross, 2004). The next largest source of revenue for the American Red Cross is contributions which account for 23 percent of its operating revenues. It received over \$442 million in contributions for domestic and international disaster relief, general operations, and endowment gifts and over \$176 million from the United Way and Combined Federal Campaign programs. The American Red Cross receives the remainder of its operating revenues from investment income and exchange contracts with other organizations (Red Cross, 2004).

Biomedical services, which includes whole blood and components and tissue services, is the largest expense for the American Red Cross accounting for 60 percent of operating expenses in 2003. It is one of the largest suppliers of blood and blood products in the nation. The disaster services and relief program is the other significant expense for the American Red Cross accounting for 11 percent of operating expenses. It responded to over 70,000 disasters in 2003 including home fires, hurricanes, and other natural and man-made disasters and distributed over \$114 million for relief services (Red Cross, 2004).

## **B. THE EXAMPLE OF THE AMERICAN RED CROSS**

The American Red Cross shares many of the same challenges and possesses many of the same attributes that serve to define the public and nonprofit sectors. It is an organization with employees and volunteers dedicated to service and focused on accomplishing its mission. It is also an organization that is responding to increasingly costly and complex disasters and committed to providing their humanitarian response in spite of financial and economic constraints. Table 3 provides a comparison of the attributes common to the public and nonprofit sectors generated in Chapter III with those exhibited by the American Red Cross.

<b>OSF basic elements</b>	<b>Common to Nonprofit &amp; Public Sector</b>	<b>American Red Cross</b>
<b>Organizational Direction</b>		
Mission	Deliver critical services, promote political & civil engagement & communication	Provide relief to disaster victims and emergency preparedness/response
Values/Beliefs	Humanity & impartiality	Humanity, impartiality, neutrality, independence, voluntary service, unity & universality
Strategy	Shaped by external influencers & operating environments	Shaped by congressional charter, IRCM principles & local environment
<b>Design Factors</b>		
People	Motivated by sense of mission and desire to make a difference	Principally volunteer workforce, self-fulfilling work that benefits others
Tasks	Wide variety, structured, skilled & unskilled	Wide variety, relatively structured and specialized, exists to serve humanity
Process/Subsystem	Influenced by stakeholder accountability	Donor and volunteer accountability
<b>Culture</b>	Sense of mission and service to others	Shared desire to serve others in need
<b>Results</b>	Not readily apparent & measurable	Difficult to measure

Table 2. Comparison of common attributes to attributes of the American Red Cross

The American Red Cross exemplifies the attributes shared by the public and nonprofit sectors. The similarities emerge as it is measured against the basic elements of the Organizational Systems Framework. Its organizational direction, design factors, culture, and results serve to illustrate the similarities and natural complement to both public and nonprofit sector attributes.

### **1. Organizational Direction**

The American Red Cross displays an organizational direction that is similar to the common attributes of the public and nonprofit sectors. It shares a common mission, espouses similar beliefs and values, and displays a strategy that is shaped by similar influences. These attributes are discussed in detail below.

#### *a. Mission*

The nonprofit and public sectors share a mission of critical services delivery, promotion of political-civil engagement, and communication. The American



Red Cross proclaims its mission to provide relief to victims of disaster and to educate the public in disaster preparedness and response. The Congressional Charter entrusts the American Red Cross with the responsibility of furnishing volunteer aid to the sick and wounded in the time of war and to execute a system of national and international disaster relief among other tasks. These missions constitute the delivery of critical services to the citizens of its communities. It is also entrusted with the responsibility of acting as a medium of communication between the people of the United States and their armies.

***b. Values/Beliefs***

The nonprofit and public sectors share common values and beliefs of humanity and impartiality. The American Red Cross displays many of these common values. It adheres to the Principles of the International Red Cross, which includes humanity, impartiality, neutrality, independence, voluntary service, unity, and universality (Red Cross, 2004). These principles are representative of the four core principles of humanitarian aid: 1) humanity, 2) neutrality, 3) impartiality, and 4) independence. These principles are valued by many organizations within the nonprofit sector (Salamon, 2002, p 261).

The American Red Cross espouses a passion for its mission and the constituents it serves. It strives to be a conduit for Americans to help themselves and others in their community when disaster strikes and remain the leading advocate for emergency preparedness. Their services are driven by their mission and their values. Several of these principles are also represented within both the public and nonprofit sectors including impartiality and humanity.

***c. Strategy***

The nonprofit and public sectors display a strategy shaped by external influences and respond to the environment within which they operate. The American Red Cross developed a strategy addressing these characteristics. Its strategic direction states it will be America's partner and a leader in mobilizing communities to help people prevent, prepare for, and respond to disasters and other life-threatening emergencies. It also will inspire a new generation of volunteers and supporters to enrich our traditional base of support and strengthen its financial base, infrastructure and support system to

continuously improve its service delivery system (Red Cross, 2004). The American Red Cross identifies its stakeholders as employees, volunteers, donors, clients, partners, and community leaders and involves them throughout the planning process. The American Red Cross effectively communicates its mission and incorporates a community response in a time of need. This is reflective of strategies incorporated by organizations within the public and nonprofit sectors.

## **2. Design Factors**

The American Red Cross shares many of the design factor characteristics common to the public and nonprofit sectors. Its largely volunteer workforce is motivated by a salient sense of mission and a desire to make a difference in their community. Its tasks and processes/subsystems share many of the same characteristics and challenges common to the public and nonprofit sectors.

### *a. People*

The American Red Cross relies on an extensive network of over one million volunteers to provide the humanitarian services its mission dictates. Volunteers are citizens who “reach out beyond the confines of their paid employment and of their normal responsibilities to contribute time and service to a not-for-profit cause” (Red Cross, 2004). Jim Starr, Vice President for Corporate Strategy at the American Red Cross states that volunteers at the American Red Cross became involved “because of a belief that their activity is beneficial to others as well as satisfying to themselves” -- a belief shared by employees and volunteers of both the public and nonprofit sectors.

Public sector employees are more motivated by public service than monetary incentives while nonprofit sector employees and volunteers often forego more lucrative employment in the for-profit sector as a result of a personal satisfaction in their work. This motivation is similar to that exhibited by volunteers of the American Red Cross. Volunteers of the American Red Cross also possess a sense of mission in the work they perform. They adhere to the principles of the International Red Cross including humanity, impartiality, and voluntary service and reflect those principles while putting personal needs aside to assist others in their time of need.

***b. Tasks***

The nonprofit and public sectors perform a wide variety of tasks with varying degrees of specialization required. Tasks consist of unskilled municipal maintenance activities to the highly skilled social work of many county social services departments within the public sector. Tasks within the nonprofit sector consist of a similar variety. The American Red Cross shares a similar variety of work within its organization including highly skilled and trained personnel executing its biomedical services program as well as unskilled volunteers providing assistance to victims of natural disaster in community shelters.

The American Red Cross responds to more than 67,000 disasters annually including house fires, hurricanes, floods, earthquakes, and tornadoes (Red Cross, 2004). Its disaster relief efforts provide shelter, food, health, and mental health services to address basic human needs following a disaster. It gives assistance to enable individuals affected by disaster to return to normal daily activities as quickly as possible. The American Red Cross also feeds emergency workers, handles inquiries from family members outside the disaster area, provides blood and blood products to disaster victims, and helps those affected by disaster gain access to other resources.

***c. Process/Subsystem***

The topic of financial accountability is prevalent within the public and nonprofit sectors including the American Red Cross. As demands for financial resources increase, public and nonprofit sector organizations have come under increased scrutiny on the use of those financial resources. The American Red Cross faces similar scrutiny of money and time from its donors. It has increased its efforts to ensure that donations are spent for the purpose that sparked the gift through aggressively communicating its mission to the public and potential donors. It also screens and trains its volunteers to ensure their time and efforts meet the expectations that sparked their interest.

### **3. Culture**

The cultures of public and nonprofit sector organization are dominated by a sense of mission and service. This sense of mission also dominates the culture of the American Red Cross. Ninety-seven percent of the American Red Cross workforce are volunteers who freely give of their time for the satisfaction and self-fulfillment they receive when helping others. This sense of satisfaction is evident throughout the organization and is displayed in the volunteers' actions. The volunteers leave their families and possessions during a time of disaster to help others in greater need. The strategic direction of the American Red Cross captures the culture of volunteerism and is focused on the salient sense of mission and purpose espoused within the culture of the organization and shared by the public and nonprofit sectors. This passion for humanity is expressed throughout the organization and shapes its culture.

### **4. Results**

The nonprofit and public sectors display a wide variety of results depending on the activity of the organization. Several of these results are difficult to measure or quantify, including the results from the work of the American Red Cross. For many activities executed by the American Red Cross, providing meaningful measurement of the final outcome is a challenge. The mission statement of the American Red Cross is to help people prevent, prepare for, and respond to emergencies. The American Red Cross has increased the percentage of households that have a disaster plan and those receiving CPR training. It has increased the days of supply of on hand while maintaining strict compliance with FDA requirements to ensure an adequate and safe supply of blood. It strives to attract and retain high quality volunteers and employees while increasing its level of trust among the public. It strives to inspire a new generation of volunteers and supporters while remaining representative of the communities it serves. It remains difficult, however, to measure the desired final outcome of reducing deaths due to natural disaster, heart attacks due to a number of other factors, and the ultimate outcome of the other processes it measures. By accurately measuring the apparent results of the processes they control, the American Red Cross is better able to measure its impact on the outcomes.

## **C. CONCLUSION**

The American Red Cross exemplifies many of the attributes common to both the public and nonprofit sectors. It displays a salient sense of mission and espouses the values of humanity, equality, and neutrality, while exhibiting an organizational strategy shaped by its mandates and its external environment. The American Red Cross cultivates a workforce motivated by a sense of mission and public service and incorporates a wide variety of skills and abilities. It also is faced with financial and human resource accountability challenges, which are shared by the public sector, while producing results that are often difficult to immediately measure. These characteristics make the American Red Cross worthy of being a source of lessons learned for the federal government and the Department of Defense.

## **IV. SUMMARY AND CONCLUSIONS**

As the federal government tried to transform itself over the past decade into an efficient and responsive organization, it has turned to the private sector as a source of best business practices while largely ignoring the nonprofit sector except as an agent for delivering services. This paper addressed the question posed by Arthur Brooks in a 2002 article in *Public Administration Review*, “Can Nonprofit Management help answer public management’s “big questions?” We submit that the answer is a qualified yes. The public sector shares many of the attributes that serve to define the nonprofit sector including a salient sense of mission and the objective of delivering the greatest amount of program with limited financial resources. It serves to produce non-market products or public services despite financial constraints. Usually, both sectors produce products and services that do not have a market value but do contribute to the general welfare of the public.

Management guru, Peter Drucker stated that business ideas would apply to government, but government is not business and cannot totally adapt business practices from the private sector (Guy, Hitchcock, 2000) . Government is a mission-oriented organization and is managed and driven by objectives, not profit. The nonprofit sector shares similar objectives. The personnel within the sectors shares similar characteristics. Nonprofits rely heavily on volunteers that are rewarded in ways other than financially. Public employees work under similar pretenses, working with a greater sense of mission than financial gain.

### **A. SUMMARY**

This paper highlights the attributes that both public and nonprofit organizations share. Chapter II describes each sector using the elements of the Organizational Systems Framework. From this descriptive analysis of both sectors, similarities were apparent between the sectors: mission-orientation, financial management, employee motivation, public accountability, and a lack of a non-market product.

Chapter III presented the American Red Cross as an example of a nonprofit organization displaying many of these common attributes. The American Red Cross is a vast organization that works closely with many government agencies and has to span many of the same bureaucratic lines that span public sector organizations. Similar to the federal government, the American Red Cross is in the midst of a transformation, shifting from its traditional decentralized structure to a more centralized management system, which allows for a more economical management system across its 620 chapters.

The American Red Cross is able to fulfill its mission despite budget constraints as donation levels have become more influenced by current events and large scale disasters. Similar to the DoD, it suffers when there is a lack of headline news. When there are few disasters, donations to the American Red Cross drop dramatically. Similar to the DOD during peacetime, budgets are cut, which severely weaken an organization's ability to perform its mission on a moment's notice, such as the ability to build up for Operation Iraqi Freedom after the draw down following the cold war and Persian Gulf War.

## **B. CONCLUSION**

The areas in which the public sector can learn from the nonprofit sector are the communication of mission, values, and purpose, intrinsic motivations, performance measurement, understanding the customer and their needs, recruitment and retention of workers, a mission-driven budget, and the ability to maintain confidence of stakeholders.

Employee/volunteer involvement within the American Red Cross is one area where DOD can learn. The basic tasks within the operation of the American Red Cross span all boundaries. Mr. Starr performs the same tasks that the local volunteers claim to partake: fund raising, local disaster assistance, and training. Involvement also includes the clear communication of mission, values, and purpose. High level officials in the American Red Cross will quote the same mission as the local volunteer; they believe in the mission and carry it out with a purpose. American Red Cross taps into the intrinsic motivations versus the extrinsic, and the people have a deeper drive and motivation to perform for the greater good of the organization.

In the interview with Mr. Starr, who had previous experience of working with public organizations, he pointed out that one of the hardest things to do within both sectors is to measure performance. Without a valid tool to measure performance, any change of direction within an organization has no meaning if it cannot be sure its changes are improving the end product. The American Red Cross has developed an internal system of ways to measure the performance of its chapters. It is an inclusive measuring tool which takes into account the variations of chapters throughout the country. The public sector would benefit from the use of a similar performance measuring system, in which budget is not the primary focus, but the ability to perform their mission given the assets available to the manager.

Since both sectors do not produce a market value item, services desired by their customers are not easily attainable through sales. The American Red Cross has a sound understanding of its customers and their needs, which has proved that they have stayed current and viable for many years. The lesson the public sector can learn from the American Red Cross is that understanding their customer enables them to provide better services. Much time and many dollars are spent in providing services that are not needed to the public. By better understanding the customer, the public sector would be better able to serve the customer in a more efficient manner.

The DOD can learn from the ability of nonprofit organizations to recruit and retain workers. Nonprofit organizations are able to manage their people to perform tasks in which accomplishment is the greatest reward. The Red Cross does an excellent job of communicating to the worker the purpose of their work. The American Red Cross relies on the intrinsic motivation of their volunteers to accomplish their overall mission. Within the DOD, developing competence in using intrinsic motivation can help mission success.

Financial viability is the cornerstone of any organization. Like the DoD, the American Red Cross will perform its mission. Its budget is mission-driven, similar to the DoD's. When additional missions need to be performed, budgeting will come in either the form of donations or supplements from Congress. The area in which the DoD can learn from the American Red Cross in relation to budget is their ability to maintain confidence of donors. When watchdog groups focus on wasteful DoD spending, the



military loses support. Thus, the military needs to maintain focus on spending while meeting the current demands.

The DoD can learn from nonprofit organizations as much as it can learn from the private sector. As the DoD transforms, it will have to consider which attributes it shares with each sector, and not just rely on private industry to solve its problems. In many ways, the DoD is like a nonprofit organization, in others its is like private industry, and some it has its own characteristics.

### **C. AREAS FOR FUTURE RESEARCH**

This paper presents several areas for further research. The potential areas of lessons learned can come from any large nonprofit organization, such as an in-depth study of what attributes DoD shares with the nonprofit sector to understand which characteristics and business practices it share with nonprofits. More specifically, areas of interest to the DoD would be employee motivation, recruitment, accountability, performance metrics, and public relations. Specific nonprofit research should be focused on what is relative to the mission areas of what is wanted to learn. For example, the DoD can learn disaster preparedness from the American Red Cross and the Salvation Army, and examine how American Heart Association does training for healthier life styles. Further studies could include:

- Conduct a case study of the American Red Cross to identify specific lessons learned or best practices for application to the federal government and the DOD.
- Conduct a case study of a service activity within the nonprofit sector for lessons learned and best practices.
- Conduct a study of several nonprofit organizations to affirm or dispute the common attributes identified in this paper.
- Examine any one or a logical group of common attributes in detail for more specific lessons learned for application to the federal government and the DOD.

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Naval Postgraduate School  
Monterey, California
3. CDR Philip J. Candreva  
Naval Postgraduate School  
Monterey, California
4. Dr. Erik Jansen  
Naval Postgraduate School  
Monterey, California